

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2013-__-E

In the matter of:

Duke Energy Carolinas, LLC's Petition for An)
Accounting Order To Defer the Incremental)
Costs Associated with Cliffside Steam Station)
Unit 6, Dan River Combined Cycle Generating)
Facility and the McGuire Nuclear Station)
Uprate Project)

**DUKE ENERGY CAROLINAS,
LLC'S PETITION FOR AN
ACCOUNTING ORDER**

Duke Energy Carolinas, LLC ("Duke Energy Carolinas" or the "Company") hereby respectfully petitions the Public Service Commission of South Carolina ("Commission"), pursuant to S.C. Code Ann. § 58-27-1540 (Supp. 2011) and 26 S.C. Code Ann. Reg. 103-825 (2010), to issue an accounting order for regulatory accounting purposes authorizing the Company to defer in a regulatory asset account certain post-in-service costs being incurred in connection with (1) the addition of the Advanced Clean Coal Cliffside Unit 6 Steam Generating Plant ("Cliffside"), (2) the addition of the Dan River Natural Gas Combined Cycle Generating Plant ("Dan River"), and (3) the McGuire Unit 1 and Unit 2 capacity-related modifications ("McGuire Uprates"). The costs Duke Energy Carolinas is seeking to defer are the related incremental cost of capital (the Company will reflect the deferral of incurred interest expense on the full amounts invested in the facilities during the cost deferral period, and will then recognize in earnings the remaining cost of capital amounts on a pro rata basis as such amounts are included in billings to customers), the incremental depreciation expense, and the incremental non-fuel operation and maintenance expenses that are being incurred from the plant in-service dates for these plant additions and modifications to the time the annual costs for these plants are

reflected in electric rates. The Company calculates the cost of capital included in this deferral request to be approximately \$18.5 million as allocated to South Carolina retail operations, the incremental depreciation expense to be approximately \$16.5 million as allocated to South Carolina retail operations and the incremental non-fuel operating expenses associated with these new plants to total approximately \$1.3 million as allocated to South Carolina retail operations. The following table shows the split of these costs by plant addition.

DEFERRED COST (000)

	Cliffside Unit 6	Dan River CC	McGuire Uprates	Total
Cost of Capital	\$2,578	\$13,324	\$2,577	\$18,479
Depreciation Expense	\$11,930	\$3,961	\$661	\$16,552
Incremental non-fuel operating expenses	\$1,154	\$182	\$0	\$1,336
Total Deferred Cost	<u>\$15,662</u>	<u>\$17,467</u>	<u>\$3,238</u>	<u>\$36,367</u>

The unrecovered incremental costs will be submitted as a cost component of electric rates in the Company's upcoming rate case in Docket No. 2013-59-E (the "2013 Rate Case"), which the Company is filing contemporaneously with this deferred cost petition. The Company has calculated the estimates above assuming new rates reflecting the ongoing annual costs of these additions as effective October 1, 2013. The deferred costs above include estimates of the costs to be included in plant in-service. The deferred costs to be recorded on the Company's accounting records will be based on actual costs and the effective date of rates stemming from the Commission's Order in Docket No. 2013-59-E.

In the 2013 Rate Case, the Company is seeking an increase in its electric base rates to reflect, among other things, the cost of capital on the capital expenditures, depreciation expense, property taxes and the annual incremental operating and maintenance expenses ("O&M") costs of Cliffside, Dan River and the McGuire Uprates. That application also includes a levelized

amount to amortize and recover over a period of five years, the costs deferred related to this Petition and accumulated in the regulatory asset account.

The unrecovered plant cost of these assets is approximately \$1.7 billion (\$255 million on a South Carolina retail basis); the potential adverse impact to the Company's earnings associated with these asset additions (in the absence of the requested deferred accounting treatment) is approximately \$36 million on a South Carolina Retail basis. This amount equates to nearly 105 basis points in the Company's South Carolina Retail rate of return on common equity. Notably, the Company's earnings for the twelve-month period ending December 31, 2012 were below the authorized equity rate of return allowed by this Commission. Duke Energy Carolinas will suffer a sizeable decline in its 2013 earnings unless the Company is permitted to defer all of the cost associated with the additions of Cliffside, Dan River, and the McGuire Uprates.

The request for relief set forth herein will not involve a change to any of the Company's retail rates or prices at this time, or require any change in any Commission rule, regulation or policy. In addition, the issuance of the requested accounting order will not prejudice the right of any party to address these issues in the subsequent general rate case proceeding. Accordingly, neither notice to the public at-large, nor a hearing is required regarding this Petition.

In support thereof, Duke Energy Carolinas respectfully shows the following:

Name, Address and Description of Company

1. Duke Energy Carolinas is engaged in the generation, transmission, distribution, and sale of electric energy at retail in the western portion of South Carolina and the central and western portions of North Carolina. The Company also sells electricity at wholesale to municipal, cooperative and investor-owned electric utilities and its wholesale sales are subject to the jurisdiction of the Federal Energy Regulatory Commission. Duke Energy Carolinas is a

public utility under the laws of South Carolina and is subject to the jurisdiction of this Commission with respect to its operations in this State. The Company is also authorized to transact business in the State of North Carolina and is a public utility under the laws of that State. Accordingly, its operations in that State are subject to the jurisdiction of the North Carolina Utilities Commission ("NCUC").

Notices and Communications

2. The attorneys for Duke Energy Carolinas to whom all correspondence should be addressed are:

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Addition of the Advanced Clean Coal Cliffside Unit 6 Generating Plant

3. The Company received the Certificate of Public Convenience and Necessity ("CPCN") for Cliffside from the NCUC in March 2007 in Docket No. E-7, Sub 790. The capital cost of Cliffside is approximately \$1.9 billion (\$423 million on a South Carolina retail basis). The total costs associated with Cliffside to be deferred is based on its in-service date of December 30, 2012, through the date the capital costs of Cliffside and the incremental operating costs of Cliffside are reflected in base rates. The capital costs of Cliffside to be deferred, however, are reduced since current South Carolina retail rates already reflect recovery of the annual capital cost on approximately \$360 million of the South Carolina retail portion of the cost to build Cliffside.

Addition of the Dan River Natural Gas Combined Cycle Generating Plant

4. The Company received the CPCN for Dan River from the NCUC in June 2008 in Docket No. E-7, Sub 832. The capital cost of Dan River is approximately \$673 million (\$160 million on a South Carolina retail basis). The total costs associated with Dan River to be deferred is based on the date Dan River was placed in service on December 10, 2012 through the date the capital costs of Dan River and the operating costs of Dan River are reflected in base rates.

Additions at the McGuire Nuclear Generating Plant Increasing the Capacity of the Plant

5. Duke Energy Carolinas has incurred significant capital costs on modifying both Units of the McGuire Nuclear Generating Plant in order to increase the maximum net dependable capability ("MNDC") of the McGuire Nuclear Plant. The total project costs related to this deferred cost petition is \$165 million (\$39 million on a South Carolina retail basis). The project costs related to McGuire Unit 2 were placed in service after the McGuire Unit 2 refueling outage in the fall of 2012. The project costs related to McGuire Unit 1 are to be placed in service after the McGuire Unit 1 re-fueling outage in the spring of 2013. Increasing the MNDC is accomplished with the completion of the following three projects. Each of these refurbishment projects at McGuire provides a least cost approach to increasing the Company's generating capacity. These projects are described in paragraphs 6 and 7 below.

6. McGuire Nuclear Station Unit 1 & Unit 2 High Pressure Turbine Performance Upgrade: This project will replace the existing HP Turbine components with Siemens' upgraded HP Turbine technology. With the HP Turbine performance upgrades in place, Siemens' guaranteed output increase is 11.1 MWe/unit with an expected increase of 12.8 MWe/unit. The maximum estimated output increase per unit is 14.0 MWe.

7. McGuire Nuclear Station Unit 2 – Main Generators Stator Refurbishment Project:

The Main Generators for both MNS Units have several material condition issues related to the normal aging of this equipment. Refurbishment of the Main Generator stators will restore nameplate capability – which is an uprate to current capability. The deferred cost the Company is seeking in this petition is only the cost related to the capital cost of the main generator stator for Unit 2 at McGuire, which was placed in service after the fall 2012 re-fueling outage. The main generator stator for Unit 1 at McGuire will be replaced in the fall 2014 re-fueling outage.

Financial Consequences of Duke Energy Carolinas' Request

8. Without approval of this deferral request, the Company will already be under-earning during the effective period of the new rates resulting from the Company's current rate case in Docket No. 2011-271-E. The \$36 million of costs (as allocated to its South Carolina retail operations) Duke Energy Carolinas seeks to defer is material and could substantially harm the Company's earnings during this time if deferral is not granted. At the same time, because Duke Energy Carolinas is proposing in its 2013 Rate Case to recover the deferred costs over a multi-year period, the ultimate rate impact of this deferral—if approved by the Commission—will be mitigated.

10. The Company must remain financially strong to comply with regulatory and environmental requirements, meet customer demand, and modernize its generation fleet and power delivery system. Many of the fundamental financial ratios reviewed by the various rating agencies in rating the creditworthiness of Duke Energy Carolinas' debt could be adversely impacted by a denial of the requested deferred accounting treatment. Approval of this deferral request will help mitigate the potential for a significant deterioration in earnings, which will benefit both the Company and its customers in helping assure investors' confidence in the Company and help assure access to needed capital on reasonable terms.

Commission Precedent For Deferral Accounting

11. The Commission has historically authorized deferral accounting for post-in-service costs of major generating plant additions from the date the units were placed in service to the date rates reflected the cost of the plants. For example, in Duke Energy Carolinas, LLC's 1991 rate case, the Commission authorized the deferral of \$15.607 million of the costs associated with the Bad Creek Pumped Hydroelectric Station "during the period between commercial operation of each unit and the date of the Commission's order in this proceeding." *Order Approving Rate Increase*, Order No. 1991-1022 (November 18, 1991), Docket No. 1991-216-E, p. 31. The Commission amortized those costs on a levelized basis over a multi-year period. Likewise, the Commission has authorized similar deferral accounting treatment for Duke Energy Carolinas and other utilities for the costs of other generating plants and major capital expenditures. See, e.g., *Accounting Order*, Order No. 2009-254 (April 9, 2009), Docket No. 2009-59-E; *Accounting Order to Defer Certain Environmental Compliance Costs at Unit 5 of the Cliffside Steam Station*, Order No. 2011-80 (February 1, 2011), Docket No. 2010-392-E; *Order Granting Petition for Accounting Order*, Order No. 2012-208 (April 3, 2012), Docket No. 2012-57-E.

8. Most recently, the Commission approved Duke Energy Carolinas' petition for a deferral of the post in-service costs of its Buck Natural Gas Combined Cycle plant and the Bridgewater Hydroelectric Generating Plant in Order No. 2012-208, Docket No. 2012-57-E ("Buck and Bridgewater Deferral Order"). In that petition, Duke Energy Carolinas requested an accounting order allowing it to defer the post in-service incremental cost of capital, depreciation expense, property taxes and non-fuel O&M related to those plants; just as it has requested for similar costs relating to Cliffside, Dan River and the McGuire Upgrades in the instant petition.

Had the Commission not approved Duke Energy Carolinas' requested deferral for its Buck and Bridgewater costs, the impact to the authorized return would have been 29 basis points. The potential impact to the Company's authorized return related to the current request is approximately 105 basis points. Accordingly, the deferral request in this case is markedly similar to previous deferrals authorized by the Commission, particularly the Buck and Bridgewater Deferral Order.


Conclusion

9. The accounting order granting the relief Duke Energy Carolinas seeks in this Petition will not preclude the Commission from addressing the reasonableness of the costs deferred in the regulatory asset account in its general rate proceeding.

10. Therefore, the Company petitions the Commission to defer as a regulatory asset the South Carolina Retail allocation portion of the revenue requirement associated with Cliffside, Dan River and the McGuire Uprates as described herein, until such time as rate recovery for these assets is provided in Duke Energy Carolinas' Commission-approved base rates.

Respectfully submitted this the 18th day of March, 2013.

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